



Ernie Fletcher
Governor

LaJuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection

Jolene Paris
Elkhorn Water District
P. O. Box 67
Frankfort, KY 40602

Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

Mark David Goss
Chairman

Teresa J. Hill
Vice Chairman

Gregory Coker
Commissioner

May 25, 2006

RE: Case No. 2006-00145

We enclose one attested copy of the Commission's Order in the above case.

Sincerely,

A handwritten signature in black ink, appearing to read "Beth O'Donnell".

Beth O'Donnell
Executive Director

BOD/jc
Enclosure

Jolene Paris
Elkhorn Water District
P. O. Box 67
Frankfort, KY 40602

Honorable David Edward Spenard
Assistant Attorney General
Office of the Attorney General
Utility & Rate Intervention Division
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF ELKHORN WATER)
DISTRICT FOR AN ADJUSTMENT OF RATES) CASE NO.
PURSUANT TO THE ALTERNATIVE RATE) 2006-00145
FILING PROCEDURE FOR SMALL UTILITIES)

ORDER

On April 5, 2006, Elkhorn Water District ("Elkhorn") tendered its application requesting the Commission to approve its proposed increase in water rates. Commission Staff, having performed a limited financial review of Elkhorn's operations, has prepared the attached report containing Staff's findings and recommendations regarding the proposed rates. *All parties should review the report carefully and submit any written comments on Staff's findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.*

IT IS THEREFORE ORDERED that:

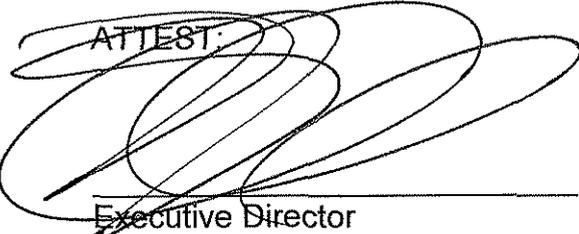
1. All parties shall, no later than 10 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received within the 10 days, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 25th day of May, 2006,

By the Commission

ATTEST:



Executive Director

STAFF REPORT
ON
ELKHORN WATER DISTRICT
CASE NO. 2006-00145

Pursuant to a request by Elkhorn Water District ("Elkhorn") for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Elkhorn's test period operations, the calendar year ending December 31, 2004. The scope of Staff's review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted Elkhorn in the development and preparation of its rate application, which Elkhorn filed with the Commission on April 5, 2006. Staff hereby adopts the contents of Elkhorn's application as its recommendation in this report as if fully set out herein. Jason Green of the Commission's Division of Financial Analysis is responsible for the pro forma revenue adjustment, the billing analysis, and the cost-of-service study. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

On page 2 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit C of the application and

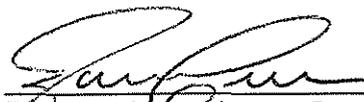
Appendix B of Staff's Report, shows that Elkhorn's pro forma operations support a revenue requirement from water rates of \$213,460, an increase of \$40,758 or 23.6 percent above the normalized revenue from water rates of \$172,702. The rates proposed by Elkhorn will increase the average residential bill from \$21.96 to \$27.14, an increase of \$5.18 or 23.6 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$213,460 will allow Elkhorn to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements of Elkhorn's bond ordinances and provide for future equity growth. Staff further finds that Elkhorn's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$213,460 and are reasonable. Staff recommends that Elkhorn's proposed rates be approved.

Signatures



Prepared by: Mark C. Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis



Prepared by: Jason Green
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2006-00145
PRO FORMA INCOME STATEMENT

	<u>Test-Period Operations</u>	<u>Pro Forma Adjustments</u>	<u>Adj. Ref</u>	<u>Pro Forma Operations</u>
Operating Revenues:				
Metered Water Sales	\$ 159,170	\$ 13,532	(a)	\$ 172,702
Sales for Resale	69,623	(69,623)	(b)	0
Revenue - Water Sales	<u>\$ 228,793</u>	<u>\$ (56,091)</u>		<u>\$ 172,702</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages – Emp.	\$ 15,370	\$ 0		\$ 15,370
Salaries & Wages – Com.	3,600	0		3,600
Purchased Water	142,662	(56,472)	(c)	86,190
Purchased Power	6,831	0		6,831
Chemicals	464	0		464
Materials & Supplies	4,412	(1,181)	(d)	3,231
Contractual Services	32,731	0		32,731
Rents	840	0		840
Insurance	3,750	(507)	(e)	3,243
Bad Debt	260	0		260
Miscellaneous	501	0		501
Total Operation & Maint.	<u>\$ 211,421</u>	<u>\$ (58,160)</u>		<u>\$ 153,261</u>
Depreciation	40,031	98	(f)	40,129
Amortization	149	0		149
Taxes Other Than Income:				
PSC Assessment	388	0		388
Payroll Taxes	1,357	95	(g)	1,452
Other Tax & License	0	0		0
Utility Operating Exp.	<u>\$ 253,346</u>	<u>\$ (57,967)</u>		<u>\$ 195,379</u>
Utility Operating Income	<u>\$ (24,553)</u>	<u>\$ 1,876</u>		<u>\$ (22,677)</u>
Other Income & Deductions:				
Interest Income	<u>2,873</u>	<u>0</u>		<u>2,873</u>
Net Inc. Available for Debt Service	<u>\$ (21,680)</u>	<u>\$ 1,876</u>		<u>\$ (19,804)</u>

Adj. Ref.	<u>Adjustment Description</u>
(a)	<u>Revenue from Water Sales:</u> Operating revenues have been adjusted to reflect Commission Staff's billing analysis, and the current tariffed rate.
(b)	<u>Sales for Resale:</u> The city of Stamping Ground has ceased purchasing water from Elkhorn. This adjustment reflects the loss of the city of Stamping Ground as a wholesale customer.
(c)	<u>Purchased Water:</u> Purchased water has been reduced to eliminate the water sales to the city of Stamping Ground and to eliminate line-loss above the 15 percent limit.
(d)	<u>Materials & Supplies:</u> In its review of the general ledger and invoices, Staff noted that several capital expenditures were expensed in the test period. Staff has reduced this materials and supplies expense to remove the capital expenditures from operating expenses.
(e)	<u>Insurance:</u> An expense from a prior period was included in test-period expenses. Staff has reduced insurance expenses by the prior period expenditure.
(f)	<u>Depreciation:</u> Staff has increased this depreciation expense to reflect depreciating the capital expenditures that were removed from the materials and supplies expense.
(g)	<u>Payroll Taxes:</u> Staff has adjusted taxes other than income tax expense to reflect the pro forma payroll and the current payroll tax rates.

APPENDIX B
STAFF REPORT CASE NO. 2006-00145
REVENUE REQUIREMENT DETERMINATION

3-Year Average Debt Service	\$	17,462
Multiplied by: Debt Service Coverage	x	1.2
Income From Operations	\$	20,954
Add: Operating Expenses		153,261
Depreciation		40,129
Amortization		149
Taxes Other Than Income	+	1,840
Total Revenue Requirement	\$	216,333
Less: Interest & Dividend Income	-	2,873
Revenue Requirement from Operations	\$	213,460
Less: Pro Forma Revenue - Metered Sales	-	172,702
Requested/Recommended Increase	\$	40,758
Percentage Increase		<u>23.600%</u>

APPENDIX C
STAFF REPORT CASE NO. 2006-00145
STAFF'S RECOMMENDED WATER RATES

RATES AND CHARGES

5/8" x 3/4" Meter

First	2,000	gallons	\$	12.83	Minimum bill
Next	3,000	gallons	\$	4.77	per 1,000 gallons
Next	5,000	gallons	\$	4.19	per 1,000 gallons
Over	10,000	gallons	\$	2.96	per 1,000 gallons

1" Meter

First	5,000	gallons	\$	27.14	Minimum bill
Next	5,000	gallons	\$	4.19	per 1,000 gallons
Over	10,000	gallons	\$	2.96	per 1,000 gallons

1 1/2" Meter

First	10,000	gallons	\$	48.09	Minimum bill
Over	10,000	gallons	\$	2.96	per 1,000 gallons

McConnell Mobile Home Park

First	15,000	gallons	\$	96.22	Minimum bill
Over	15,000	gallons	\$	2.96	per 1,000 gallons

Elkhorn Mobile Home Park

First	76,000	gallons	\$	487.54	Minimum bill
Over	76,000	gallons	\$	2.96	per 1,000 gallons

Capital Mobile Home Park

First	125,000	gallons	\$	801.87	Minimum bill
Over	125,000	gallons	\$	2.96	per 1,000 gallons

Emergency Wholesale Rate

Emergency Wholesale Rate			\$	2.96	per 1,000 gallons
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Anyone who wishes to purchase water at the emergency wholesale rate shall pay any costs associated with the emergency hookup.